

# State Corporate Income Tax-Calculation

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Because it takes all elements (a\*b\*c) to calculate the personal or corporate income tax, no one element of the corporate income tax can be analyzed separately from the other elements – they all matter.

**Tax Due = Filing Group Taxable Income x State % x Tax Rate**

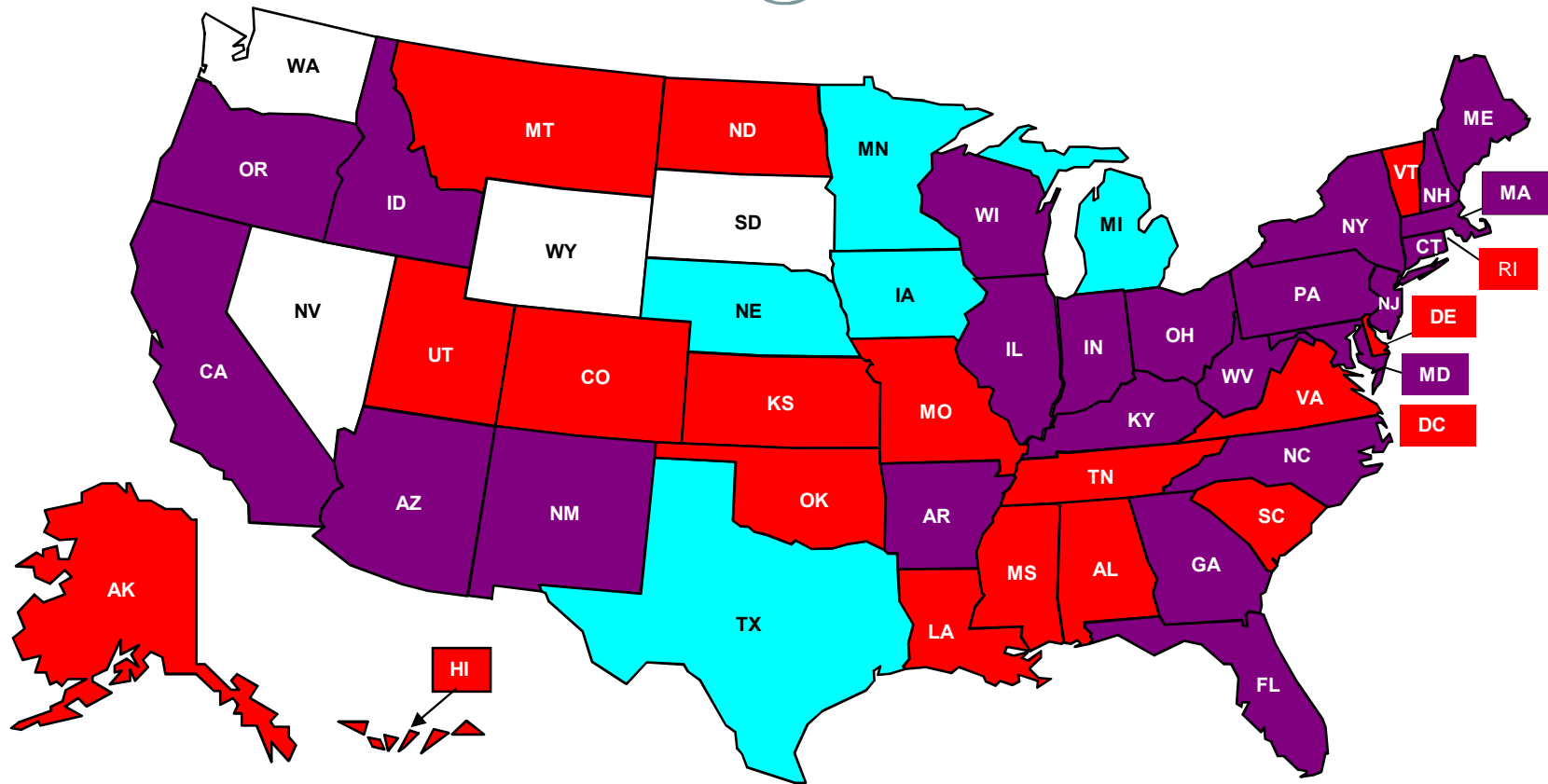
- The apportionment for a given state, “**State X**”, is typically computed as follows (std. 3 factor formula):

$$\text{State}\% = \frac{\frac{\text{State X Property}}{\text{Total Property}} + \frac{\text{State X Payroll}}{\text{Total Payroll}} + \frac{\text{State X Sales}}{\text{Total Sales}}}{3}$$

- Single Weighted Sales Factor: **State %** =  $\frac{\text{State X Sales}}{\text{Total Sales}}$



# Apportionment Formulas\* - 1998

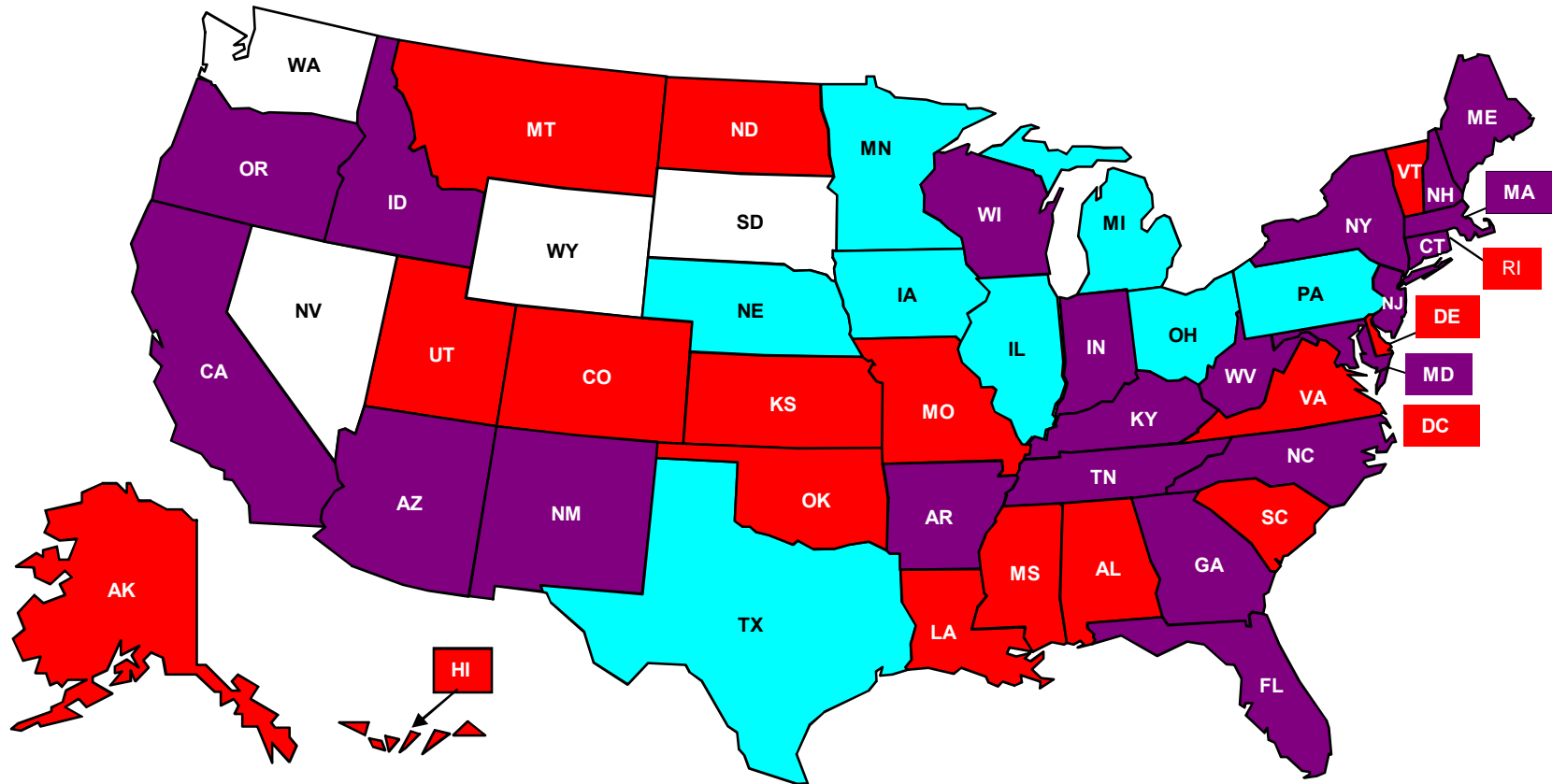


**\*Does not address industry-specific or optional formulas**

- Equally weighted three factor formula
- Double weighted sales factor
- Triple or greater weighted or single sales factor



# Apportionment Formulas\* - 2003

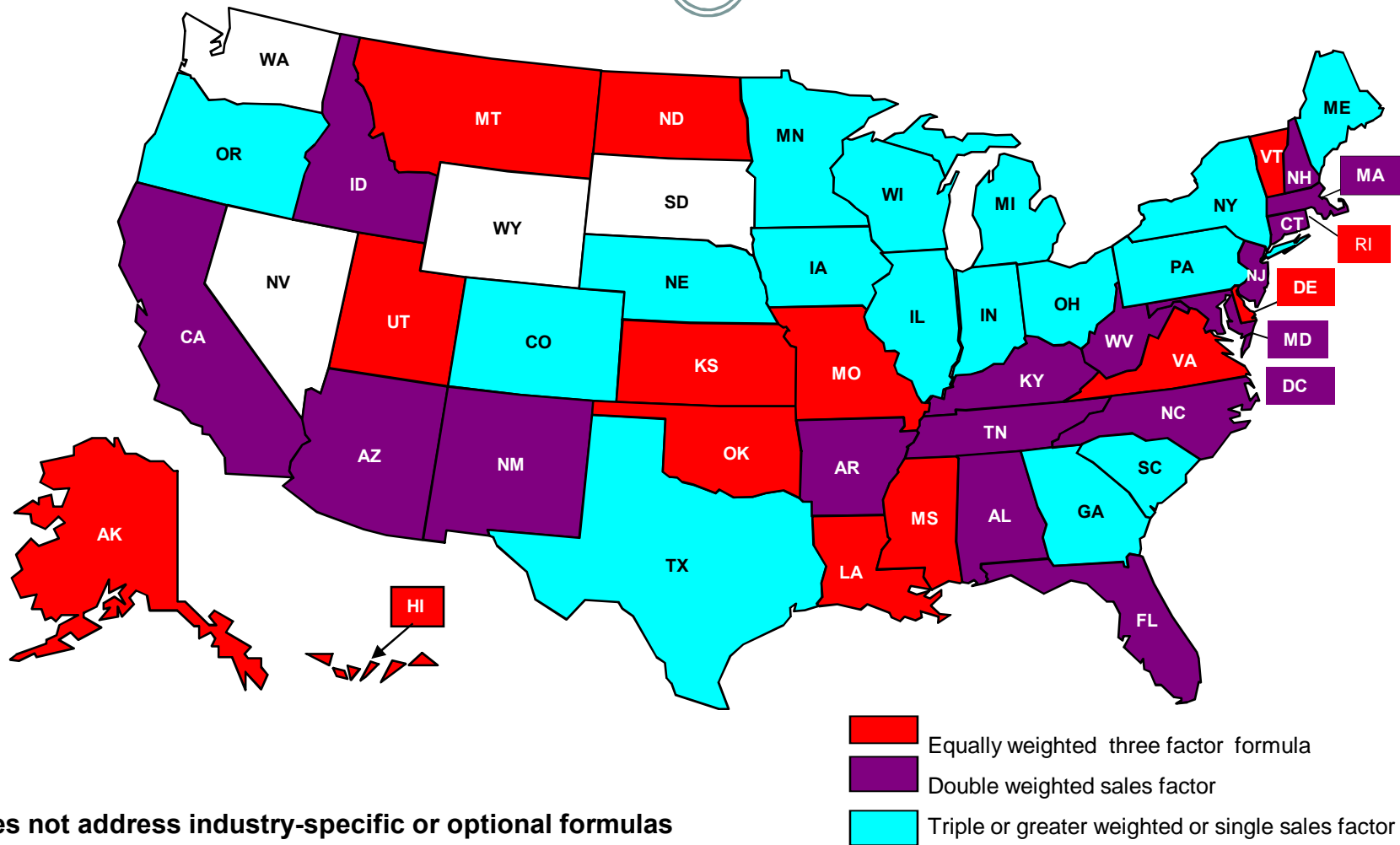


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- Equally weighted three factor formula
- Equally weighted three factor formula
- Double weighted sales factor
- Triple or greater weighted or single sales factor



# Apportionment Formulas\* - 2012





# Why Single Sales Factor for HQ Operations?

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- The equally weighted corporate income tax apportionment formula creates a disincentive to expansion in New Mexico; if a company increases its workforce or capital investment in New Mexico, its taxes in New Mexico would increase, even without the benefits of additional sales, creating a disincentive for growth.
- Single sales factor removes the disincentive for capital investment and workforce expansion within New Mexico.



# Why Single Sales Factor for HQ Operations?

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- Single sales factor election for manufacturers and headquarter operations creates an incentive for companies that are creating economic base jobs.
  - Economic base job or company is one that exports most of its goods or services outside the state and brings in new money into the state



# Economic Value of Headquarter Operations

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The presence of HQ operations can produce significant value to the community:

- Typically offer high paying jobs in a variety of skill areas
- May be the “anchor” company that attracts suppliers, business partners, and other companies within a specific industry



# Economic Value of Headquarter Operations

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- New companies may spin-off from an existing company and provide additional growth within the state
- Company personnel frequently invest substantial time and resources in community development, philanthropy and enhancing the quality of life



# Headquarters Operation Tax Incentive

H.B. 2, 52nd Leg., 1st Spec. Sess. (NM 2015)

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## Section 7-4-10(C)

- A taxpayer whose principal business activity in New Mexico is a headquarters operation may elect to have business income apportioned to this state using the single sales factor
- Requirements
  - Principal business activity in NM
  - Headquarters operation
  - Elect single sales factor apportionment
    - ✦ Applies until terminated, minimum 3-year election



# Headquarters Operation Tax Incentive

H.B. 2, 52nd Leg., 1st Spec. Sess. (NM 2015)

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## Section 7-4-10(E)(1)(a)

“headquarters operation” means center of operations of a business:

- Corporate staff physically employed
- Centralized functions performed
- Function and purpose to manage and direct most aspects and functions of the business within a subdivided area of the US
- Final authority over regional or subregional offices, operating facilities and any other offices of the business are issued and
- Including national and regional headquarters



# Headquarters Operation Tax Incentive

H.B. 2, 52nd Leg., 1st Spec. Sess. (NM 2015)

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## Section 7-4-10(E)(1)(a)

### Centralized Functions

- Includes - administrative, planning, managerial, human resources, purchasing, information technology and accounting
- Does not Include – operating a call center



# Headquarters Operation Tax Incentive

H.B. 2, 52nd Leg., 1st Spec. Sess. (NM 2015)

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## Section 7-4-10(E)(1)(b)

“headquarters operation” means center of operations of a business:

- the function and purpose of which is to manage and direct most aspects of one or more centralized functions; and
- from which final authority over one or more centralized functions is issued